

Global Fiscal Issues:

LFC Recommendations to the
2007 Legislature



Purpose of Report

- Procedural framework for the legislature to address global fiscal issues
- Consistency and equity
- There are 11 items to consider for decisions by this joint appropriations committee
- Four of these are products the work of the LFC this interim

Background

- 1997 Legislature added this requirement to the LFC duties
- Requires the LFC to prepare recommendations to House Appropriations and Senate Finance & Claims

More Background

3 Categories of Global Issues

- Consistency of action
 - Vacancy savings and inflation/deflation
- Funding past decisions of legislature
 - Legislatively authorized employee pay plan
- Cost items driven by a centrally established budget
 - Information technology services or central purchasing

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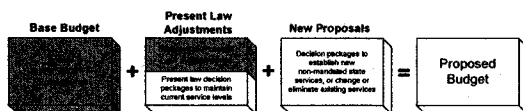
Again, there are 11 topics for which decisions are needed

1. Starting point for subcommittees
2. Determining overarching personnel policies
3. FTE Changes
4. Vacancy Savings
5. Fixed Costs
6. Inflation/Deflation
7. Proposals requiring legislation
8. Negative new proposals
9. HB 2 Companion Bill(s)
10. Subcommittee Template for Agency Presentations
11. Integration of Goals/Objectives in Budget Process

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Starting Point for Subcommittees

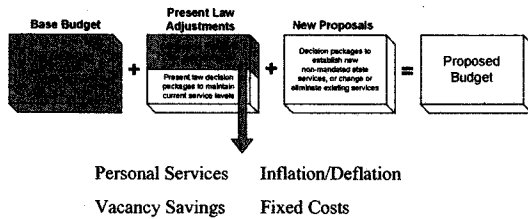
BUDGET STRUCTURE



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Starting Point for Subcommittees

BUDGET STRUCTURE



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Starting Point Statewide Present Law Adjustments

Personal Services Adjustments

- Restore amounts unfunded in previous biennium because of vacancy savings
- Fully fund pay plan costs authorized by previous legislature
- Fully fund positions that were reclassified or have had market adjustments, etc.
- Fund benefit rate increases (e.g., work comp)

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Starting Point Statewide Present Law Adjustments

Vacancy Savings

- Apply vacancy savings factor for 2009 biennium

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Starting Point
Statewide Present Law Adjustments

Fixed Costs

- Changes in rates charged to state agencies by other state agencies (e.g., warrant writing or office space rent)

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Starting Point
Statewide Present Law Adjustments

Fixed Costs for the 2009 Biennium		
Fixed Cost Account	FY 2008 Amount	FY 2009 Amount
Insurance (62104)	\$12,881,099	\$12,899,240
Warrant Writer (62113)	\$1,024,844	\$1,027,348
Payroll (62114)	\$530,416	\$504,019
Legislative Audit Fees (62122)	\$3,356,527	
SABHRS (62148)	\$8,774,746	\$8,616,145
Data Network Fees (62174)	\$13,259,476	\$13,963,224
Web Services (621A7)		\$438,601
Messenger Services (62307)	\$206,939	\$206,939
Capitol Complex Rent (62527)	\$7,793,660	\$8,179,398
Grounds Maintenance (62770)	\$454,426	\$465,426
SWCAP (62898)	\$2,785,109	\$2,785,109

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Starting Point
Statewide Present Law Adjustments

Inflation/Deflation

- Adjustments of a select group of expenditures expected to see marked increases or decreases (e.g., natural gas costs)
- Some factors are inflationary
- Some factors are deflationary

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Starting Point
Statewide Present Law Adjustments

Account	Name	FY 2008	FY 2009
62142	Disk Storage	-4.40%	-4.40%
62172	Batch CPU	-4.50%	-4.50%
62177	TSO CPU	-4.50%	-4.50%
62178	IDMS/CPU CICS ADS	-4.50%	-4.50
62180	CICS CPU	-4.50%	-4.50%
62205	Food	4.60%	6.40%
62225	Books and Ref. Material	14.00%	21.90%
62251-38	Meat and Misc Food Items	4.60%	6.40%
62304	Postage and Mailing	8.60%	8.60%
62404	In-State State Motor Pool	18.60%	14.70%
62510	Motor Pool Leased Vehic.	19.60%	14.70%
62601	Electricity	5.20%	7.50%
62603	Natural Gas	31.00%	31.00%
63125	Library Books	14.00%	21.90%

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Starting Point
Statewide Present Law Adjustments

- Why statewide present law is done this way
 - Equity – treat agencies the same
 - Avoids use of hundreds of decision packages to achieve the same result
 - With adoption of statewide present law adjustments as part of the base, the legislature is not precluded from making changes to the present law base budget – discussed later

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Starting Point – LFC Recommendation

Item 1: Direct the subcommittees to adopt the base budget and the statewide present law adjustments as the starting point of budget deliberations for each agency.

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How Subcommittees Can Affect Statewide Present Law

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Components of Statewide Present Law for Personal Services

- Changes can occur in 3 ways
 - Annualization of pay plan
 - Changes outside the pay plan that are done under other authority allowed by the legislature
 - Fully funding of positions that were vacant all or part of base year
- The reasons that employee pay might increase outside the legislatively approved pay plan can vary greatly from agency to agency, and the reason that positions were vacant can vary as well.

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Components of SW Present Law LFC Recommendation

Item 2: The subcommittees should be directed to work with their respective subcommittee staff to determine the reasons for these occurrences and variations, and allow for coordination between subcommittees if an overarching policy should be addressed.

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FTE Changes

- Regardless of “starting point”, subcommittees can add or eliminate funding for positions (FTE)
- Subcommittee staff can create a decision package
- Benefits calculated through formulae
- Consistency in adjustments of funding of FTE suggests a need for a guideline

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FTE Changes – Options & LFC Recommendation

Item 3: How should monetary adjustments to each budget be calculated when FTE funding is added or eliminated?

- **Option a – LFC Recommendation:** Specify the actual FTE, and allow the legislative budgeting system to calculate the total addition or reduction in funding for that specific FTE.
- **Option b:** Specify an estimated level of funding to be reduced or added.

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Vacancy Savings

- Usually applied in Executive Budget
- It is a policy decision for legislature
- Legislature went along with 4% last couple of session
- Policy has varied over the years
- Executive Budget proposes 4% again

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Vacancy Savings – Options & LFC Recommendation

Item 4:

- **Option a – LFC Recommendation:** The full appropriations committees shall adopt a global recommended level of personal services reductions (vacancy savings). Subcommittees will be requested to adopt the recommended level as part of their budget recommendation.
- **Option b:** There will be no recommendation from the full committees on personal services reductions. Subcommittees may adopt vacancy savings levels on a case-by-case basis.

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Fixed Costs

- Items such as audit, payroll, capitol grounds maintenance, rent, and computer network services charges
- One state agency providing services to another
- For each service provider, a subcommittee reviews its budget and rates

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Fixed Costs – LFC Recommendation

- Item 5:** Direct subcommittees to consistently apply fixed costs in agency budgets as included by the executive budget request. Adjustments to fixed cost rates shall be determined by the subcommittee examining the service provider (e.g., ITSD costs as reviewed by the General Government Subcommittee) and shall be globally adjusted on a consistent basis.

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Inflation/Deflation

- Several expenditure categories have inflation or deflation factors applied
- The expenditure categories occur in multiple agencies
- Inflation/deflation factors should be applied consistently so any changes to factors apply to all

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Inflation/Deflation LFC Recommendation

Item 6: If the full committee wishes to vary from the executive budget proposal inflation/deflation factors, it should establish approved inflation/deflation rates (if any) by individual object of expenditure and direct subcommittees to apply these rates to all budget adjustment recommendations.

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Issues Related to HB 2 Procedures

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Proposals Requiring Legislation

- Implementation of some proposals that require HB 2 appropriations will require implementation of complementary legislation.
- Issue: How will changes in HB 2 that are dependent upon the passage of other bills be made?

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Proposals Requiring Legislation – Options & LFC Recommendation

Item 7:

- Option a: Subcommittees make recommendations regarding the proposal. Build all changes requiring legislation into the HB 2 line-items, and include contingency language striking the change if the legislation does not pass.
- Option b: Do not include the changes requiring legislation in HB 2 line items, but include contingency language enacting the change if the legislation does pass.
- Option c – LFC Recommendation: Make no recommendations or adjustments to HB 2 until required legislation passes.

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“Negative” New Proposals

- Used in past to signify a separate reduction in the appropriation, without specifying where the reduction should occur
- The budget system and statute cannot accommodate a negative appropriation
- Need to avoid potential for a negative line item in HB 2

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“Negative” New Proposals – LFC Recommendation

Item 8: Appropriations committee leadership shall direct the appropriations subcommittees to include negative new proposals in the present law line item in the budget, as opposed to a separate negative line item appropriation.

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Companion Bill Proposal

- Articulate performance/accountability measures and related reporting requirements
- Provide other reporting requirements
- Provide statutory changes necessary to implement provisions of the budget
- Provide special instructions on use of or access to appropriations
- Require agency action

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Companion Bill

LFC did not make recommendation

Item 9: Appropriations committees leadership request one or more committee bills to serve as a “companion bill(s)” to the general appropriations act (HB 2), to enable a vehicle for substantive language related to the implementation of certain appropriation line items in HB 2.

(LFC suggested another approach)

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Template for Agency Presentations to Subcommittee

- Agency presentations vary
- Difficult to compare programs
- LFC approved a template for presentations with input from appropriations subcommittee members

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Template for Agency Presentations to Subcommittee – LFC Recommendation

Item 10: Appropriations committee leadership shall direct the appropriations subcommittees to request presenting agencies to structure their respective presentations to conform to the approved and published template for such presentations.

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Integrate Goals and Objectives in Appropriations Process

- State law requires agency goals and objectives to be specific and measurable
- Discussion in *Budget Analysis*
- Reviewing goals and objective might help legislature direct resources to where needed

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Integrate Goals and Objectives in Appropriations
Process – LFC Recommendation

**Item 11: a) Appropriations committee leadership
shall direct the appropriations subcommittees to:**

- Set aside time during the committee time to discuss goals, objectives and outcomes for the 2007 biennium and discuss goals and objectives of the 2009 biennium;
- Relate goals and objectives to the budget request;
- Utilize discussion results to adjust, condition or disapprove appropriations in relation to programs goals and objectives through HB 2 (and one or more companion bills if companion bill concept is pursued) ; and

(Continued next slide)

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Integrate Goals and Objectives in Appropriations
Process – LFC Recommendation

**Item 11: b) Appropriations committee leadership
shall request the House Appropriation Committee
chair and the Senate Finance and Claims
Committee chair to introduce goals and objectives
as part of the HB 2 deliberations process prior to
floor debate by:**

- Opening deliberations on each agency with the outcome of major initiatives from the 2007 biennium; and
- Providing a synopsis of 2009 biennium goals and objectives used to establish appropriations.

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